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# **Japan and the East Asian Financial Crisis: Patterns, Motivations and Instrumentalisation of Japanese Regional Economic Diplomacy**

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**Abstract** At first sight, the East Asian financial crisis represents an instance of Japan failing the test of regional leadership—as evidenced by its abandonment of initial proposals for an AMF in the face of US and Chinese opposition in 1997. However, if a second look is taken, and one which is sensitised to the fundamental characteristics of its diplomacy, then Japan can be seen as far more effective in augmenting its regional leadership role than previously imagined. Indeed, the article demonstrates that Japanese policy-makers have resurrected, over the longer term and in different guises, AMF-like frameworks which provide a potential springboard for further regional cooperation.

Hence, the aims of this article are twofold. The first is to demonstrate the overall efficacy of Japanese regional economic diplomacy, and its ability to control outcomes through steering East Asia towards enhanced monetary cooperation. The second is to explain the reasons behind Japan's distinctive policy approach towards the financial crisis and general lessons for understanding its foreign policy. The article seeks to do so by asking three fundamental questions about the 'what', 'why' and 'how' of Japan's regional role: 'what' in terms of the dominant behavioural patterns of Japan's economic diplomacy; 'why' in terms of the motivations for this behaviour; and 'how' in terms of Japan's instrumentalisation of its regional policy.

## **Introduction: Japanese leadership weakened or consolidated in East Asia?**

At first sight, the East Asian financial crisis represents an instance whereby Japan, despite its careful propagation of developmental models and aspirations for an enhanced role in the region, really seemed to fail the test of regional leadership. Japan's immediate proposals for a regional framework to tackle the crisis in the shape of an Asian Monetary Fund (AMF) were shot down by US, Chinese and European opposition in late 1997. Japan appeared once again to have crumbled in the face of US pressure and to have prioritised the US-Japan bilateral relationship over its

commitment to any form of regional multilateral cooperation. Japan also seemed to have ceded potential regional leadership over the longer term to the rising presence of China, and to have betrayed the expectations of the Association of South East Asian Nations (ASEAN) member states which had looked to Japan as their economic mentor for assistance in the midst of the crisis. Finally, even though the Japanese government had spent decades and billions of US dollars courting the Indonesian elite and encouraging developmental policies, it proved incapable of preventing that state's slide into economic and political chaos. Japanese economic diplomacy and power in the region seemed a spent force. All too predictably, it appeared, Japan's regional strategy had slipped backed into a familiar story of inertia and ineptitude.

The contention of this article, however, is that these standard views of Japan's failed economic diplomacy in the East Asia region are inaccurate and do not appreciate its true complexity and degree of success. The argument is not to deny that Japan's diplomacy encountered serious difficulties in responding to the crisis. Nor is to put forward the view that the rationale for Japan's differing economic prescription for the region's economic afflictions was entirely correct; although a strong argument for the appropriateness and efficacy of Japanese economic crisis measures in helping to restore the growth prospects of the East Asian developmental states can and is made with conviction elsewhere.<sup>1</sup> Instead, the argument made here is one about the general style of Japanese economic diplomacy, and, above all, its ability to control *outcomes*. For if a second look is taken, and one which is sensitised to the fundamental characteristics of Japan's diplomacy, and judges its achievements on the basis of its own objectives, motivations and available policy tools, then the argument can be put forward that Japan has been far more effective in reaching its diplomatic goals and

augmenting its leadership role in the region than previous research would lead us to believe. Equally as important, beyond just indicating the effectiveness of Japan's diplomacy in achieving its desired policy objectives, the East Asian financial crisis also serves as a case study which reveals very clearly the general patterns and modalities of Japanese diplomacy.

Hence, the aims of this article are twofold. The first aim is to demonstrate that, if we suspend some of our traditional preconceptions about how major developed states pursue policy ends and examine Japan's actions within their own rationale, then Japan, contrary to most expectations, actually strengthened its position of leadership in the East Asia region during and in the aftermath of the financial crisis. Indeed, the article will demonstrate that the most successful instance of Japan's control over policy outcomes has been its promotion of frameworks for regional monetary cooperation. Japan's proposal for the AMF may have been defeated over the short term, but its policy-makers have worked ever since to resurrect, in different guises and over the longer term, frameworks with similar functions and which provide a potential springboard for further regional cooperation with Japan as its central fulcrum.

The second aim of the article is to attempt to explain the reasons behind Japan's distinctive policy approach towards the East Asian financial crisis and to tease out from events general lessons for understanding its economic diplomacy and foreign policy. The article seeks to do so by asking three fundamental questions about the 'what', 'why' and 'how' of Japan's behaviour and regional role: the 'what' in terms of the dominant behavioural patterns of Japan's economic diplomacy in the course of the crisis; the 'why' in terms of the motivation for this behaviour; and the 'how' in

terms of the way policy-makers instrumentalise Japan's regional role. In turn, these three questions of the 'what', 'why' and 'how' of Japan's regional role help to link together a diverse body of literature on the operation of Japanese economic diplomacy and deliver a conceptual framework which can be used to comprehend its actions in other regional and non-regional contexts.<sup>2</sup>

### *Frameworks for understanding Japanese economic diplomacy*

More specifically, this article employs a three-pronged approach and conceptual framework to assist in the evaluation of the effectiveness and style of Japan's regional economic diplomacy. Firstly, the article outlines the 'what' of Japan's economic diplomacy by tracing the overall patterns and outcomes of its diplomacy. Thus the opening sections of the article provides a relatively detailed chronological account of the events of the crisis itself and Japan's staged approach to dealing with the problems that arose, so as to then provide a basis of evidence from which can be extracted lessons about the motivations and instrumentalisation of its diplomacy.

Secondly, the article then moves on to explain 'why' Japan pursued these patterns of diplomacy and outcomes based on a combination of the causal factors of structure and agency. That is to say, Japan's international behaviour is in part determined by the structure of the international system in which Japan itself is embedded—historically contingent and consisting of other states, international organisations and non-state actors—and the constraints and opportunities that this offers for the pursuit of its diplomacy. In the case of Japan and East Asian financial crisis, as will be seen in later sections of the article, the presence of the US and its bilateral relationship with Japan, as well as the legacy of Japanese colonialism and historical antipathy of the East

Asian states towards a regional leadership role for Japan, have been particularly salient international structural constraints upon Japanese behaviour. At the same time, though, Japan's diplomatic behaviour is also in part determined by the role of key domestic policy-making agents and their interplay with the international structure. These domestic actors are not passive and compliant in the face of the international structure, but work to devise active policy responses to the constraints and opportunities that it offers. Hence, in order to understand Japan's response to the East Asian financial crisis, a detailed analysis of the policy actors and policy-making process in Japan is also offered in this article. Moreover, as well as providing an examination of the domestic policy-making process and its interaction with the international structure as a means to explain Japan's behaviour, the article goes a step further and considers the perceptions and interests which shape the policy preferences of the Japanese policy-makers themselves. In this examination, an understanding of the normative perceptions of interests amongst Japanese policy-makers is essential. As will be seen later in the article, a range of norms including 'Asianism', developmentalism, and bilateralism have been crucial in informing the world view of policy makers in Japan and their willingness to acquiesce in, or circumvent, the constraints of the international structure.

Thirdly, the approach of the article is to explain 'how' Japan instrumentalised its economic diplomacy in East Asia through a variety of low-key but surprisingly effective modalities. The article will demonstrate that Japan's diplomatic style is to take a range of consistently low-risk and low-profile regional initiatives, which are characterised here as 'quiet diplomacy'. This quiet diplomacy tends to adopt a long-term policy perspective in the temporal dimension, and also to be pursued through

formal, informal and proxy channels. The first channel of formal diplomacy involves what might be called an *omote* approach. This means literally a ‘surface’ or ‘explicit’ approach, whereby official, principally government representatives of the Japanese state, negotiate with their foreign partners within formal settings, such as summits, bilateral agreements, foreign and trade ministerial meetings. In contrast, the *ura* approach (‘back’ or ‘implicit’) offers an informal means for conducting Japan’s international relations. This approach is often characterized by the Japanese domestic practice of *nemawashi*, whereby a network of informal meetings lays the groundwork for the formal negotiations. Similarly, the ‘proxy channel’ also lies at the level of informal engagement, but involves behind-the-scenes negotiations to encourage policy-makers of other states to take up causes promoted by Japan. It can also be seen in the government’s use of domestic proxies to promote the state’s interests, as in the deployment of private sector business actors and networking amongst business elites, or *minkan gaikō*, to promote understanding of Japan’s diplomatic policy in East Asia and elsewhere. Proxy diplomacy is also seen in the use by Japan of another state to put forward international initiatives developed by its own policy-makers, as in the case of Australia’s announcement of the Asia-Pacific Economic Cooperation (APEC) forum in the early 1990s.<sup>3</sup> These are some of the key means used to instrumentalise Japan’s quiet diplomacy, but they should by no means be viewed as offering a culturally-deterministic explanation of the international relations of Japan. Rather, they must be understood as issuing from a confluence of internal and external factors. On the domestic side, a range of political and economic participants influences the formulation of a particular aspect of foreign policy. On the international side, postwar bilateral commitment to the US and Asian regional hostility proscribing any greater

role for Japan ensured that the state had little choice but to maintain a form of highly cautious ‘tip-toe’ diplomacy in international fora.<sup>4</sup>

These formal, informal and proxy channels used to lay the groundwork for the deployment of Japanese power are applied, as the article will also reveal, across a number of unilateral, bilateral and multilateral levels. The structure of the international system, the policy-making agents and other actors involved, and the norms which shape their behaviour, have determined jointly the specific level for the deployment of Japanese power. Japanese policy-makers have exploited opportunities on all of these three levels, depending upon the policy issue at stake. Japan has been known to work on the unilateral level in pursuit of its ‘resource diplomacy’ in East Asia and elsewhere, but has also shown a preference for bilateral approaches to the region: working either with the US in the fields of economics and especially security, whilst also building up key bilateral relations with China and the individual ASEAN states. Japan has traditionally not been known for its predilection for multilateral channels of diplomacy, although in the post-Cold War period it has experimented with these in the economic dimension in APEC and with regard to security in the ASEAN Regional Forum (ARF). In all these cases, Japan has always ensured that the US is actively involved in order to balance Japan’s regional interests with its wider global interests, often identified with the US and its role in upholding the international economic and security orders. However, as is noted in the article, what is most striking about Japan’s efforts in dealing with the East Asian crisis is not only its move towards the use of multilateral frameworks to buttress its regional position, but also its willingness to contemplate multilateral regional frameworks which exclude the US—



all indicative of Japan's enhanced confidence in edging towards more open regional leadership.

### **Japan and the East Asian financial crisis**

#### *'What': patterns of Japan's response to the crisis*

The details of the causes and all the events of the East Asian financial crisis cannot be fully explored here due to limitations of space.<sup>5</sup> It is suffice to note, though, that from the very initiation of the crisis many of the East Asian states looked to Japan, the supposed economic leader of the region, for assistance. The Japanese government was clearly concerned about the economic, political and security impact of the crisis, and in many ways demonstrated remarkable pro-activity in the period immediately after its outbreak. Japan's response can be seen to have taken place in five principal phases: two initial ones leading to the unveiling but then eventual defeat of the AMF proposal, and then three further phases which have led to the return of AMF-like frameworks even if they do not readily appear as such.

The first initial phase of activity occurred well before the outbreak of the financial crisis but can be said to have laid the groundwork for many of Japan's subsequent bilateral and multilateral responses. Japanese preparations for enhanced regional monetary cooperation had been put in place behind the scenes with its establishment of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) in 1991, an organisation consisting of the central banks of the region (including China, Hong Kong, South Korea, Indonesia, the Philippines, Singapore, Thailand, Australia and New Zealand), and the agreement of the body in 1996 to establish working groups on

Financial Market Development and Central Banking Operations and one study group on the Banking Supervision. Moreover, Japan's Ministry of Finance (MOF) had asked Gyōten Toyō, its former Vice-Minister for Finance, to use his retirement position at the Bank of Tokyo to the Institute for International Monetary Affairs (IIMA), a private sector think tank. Once at the IIMA, Gyōten used his influence to court and organise meetings of the central bankers of region.<sup>6</sup> Significantly, the US was not invited to these meetings. One outcome of Japanese activities in this period was the conclusion of a series of bilateral agreements with Hong Kong, Singapore, Indonesia, Malaysia, Thailand, the Philippines and Australia, which allowed for limited Japanese intervention in their currency markets up to the value of US\$1 billion.<sup>7</sup> Japan's careful and low-key preparations in previous years to create a platform for regional monetary cooperation were then to enable it to engage in a second phase of activity which occurred during the actual onset of the East Asian financial crisis itself and which would consist of not only bilateral frameworks but also multilateral proposals for the AMF.

Following the onset of the crisis, and increasingly aware that bilateral arrangements were insufficient to meet its challenge, the Japanese government entered into a second initial phase of activity which included overt multilateral initiatives. MOF agreed to host an International Monetary Fund (IMF) meeting of regional finance ministers in August 1997. Arranged in conjunction with the IMF, this multilateral forum succeeded in raising US\$16 billion in emergency funding for Thailand, of which the Japanese government contributed by far the largest share of US\$4 billion. However, despite this injection of economic assistance, the crisis only deepened throughout August and September 1997. In response, the Japanese government launched at the

annual World Bank-IMF meeting held in Hong Kong in late September an initiative to establish an AMF. Japan's proposal was to create a US\$100 billion fund consisting of the East Asian states, and with a regional financial surveillance mechanism and emergency loan facility which would be able to detect early on and suppress future financial crises. Japanese government officials from MOF and the Ministry of Foreign Affairs (MOFA) stressed at the time that the AMF would merely supplement and reinforce at a regional level existing IMF surveillance and loan facilities. MOF had conducted a previous test-run of these ideas, again somewhat behind the scenes or using *ura* channels, at a EMEAP meeting in Shanghai, and then at an informal meeting of East Asian finance ministers in Hong Kong earlier in the month.<sup>8</sup>

MOF and particularly its energetic Vice-Minister for International Affairs, Sakakibara Eisuke, had conducted a considerable campaign of consensus-building and *nemawashi* amongst many of the East Asian states. However, MOF and Sakakibara appeared to have not given the same attention to the states and key international financial institutions from outside the East Asia region. IMF and US officials were clearly concerned that the AMF proposal would provide loans to the region at a softer level of conditionality and thus undermine the IMF's austerity programmes. Moreover, the US government was taken by surprise by the AMF initiative and viewed it as an all-East Asia multilateral grouping designed to diminish the US presence in the region, whilst at the same time bolstering Japan's leadership role due to its likely position as the principal supplier of funds to the AMF. Furthermore, the Chinese government was also suspicious of the AMF proposal (in part reflecting not a lack of consideration on Sakakibara's part for the Chinese reaction, but his inability to access key officials in China due to the weakness of Sino-Japanese human networks

in the area of finance), regarding it as a Japanese bid for regional economic leadership and even hegemony.<sup>9</sup> Many of the other East Asian states, especially Thailand and Malaysia, were certainly enthusiastic about the AMF proposal, but in the face of combined IMF, US and Chinese opposition Japan was obliged to publicly withdraw its plan by November 1997.

Japan's apparent abandonment of the AMF concept was viewed by many regional commentators and policy-makers as a defeat for its diplomacy and leadership ambitions in the region. Japan appeared unwilling to overcome IMF and US opposition and to lead a truly regional response to East Asia's own financial problems. Instead, it seemed willing to acquiesce once again in direction from its US ally, and to settle for IMF policy 'one fits all' policy prescriptions and austerity programmes which were only seen to exacerbate the economic problems of the region. Reflecting this sentiment, Malaysian Prime Minister Mahathir Mohammed remarked at the inaugural ASEAN Plus Three (APT) summit in Kuala Lumpur in December 1997 that Japan had lost the will to be 'lead goose in the region', so mocking the 'flying geese' theories of Japanese economic leadership and organisation of the East Asia region.<sup>10</sup>

Nevertheless, this impression of Japanese pusillanimity and the failure of its economic diplomacy and leadership over the short-term needs to be tempered with one of possibly resurgent Japanese leadership over a long period of time. Despite Japan's setback over the AMF in 1997, it is clear that neither its quiet diplomacy nor its proposals for regional financial cooperation experienced total defeat. Japan's policy-makers in 1997 appear instead to have only made a strategic retreat, to have re-

grouped, and to have achieved similar policy objectives, albeit through slightly different channels. Contrary to expectations, the AMF proposal was not extinguished in 1997, but has lived on in various other Japanese-backed manifestations. Specifically, Japan's continued attempt to exert leadership in the wake of the financial crisis can be divided into three further phases since 1997.

The third phase began in November 1997 with Japan's reversion to the bilateral level and its invocation of the bilateral currency intervention agreements and coordinated intervention with Singapore and Indonesia to support the value of the Thai baht.<sup>11</sup> Following this, the Japanese government edged back to the multilateral level and worked with the US to establish the Manila Framework (with the participation of Brunei Darussalam, China, Hong Kong, Indonesia, South Korea, Malaysia, the Philippines, Singapore, Thailand, Japan, Australia, New Zealand, Canada, the United States, IMF and the Asian Development Bank [ADB]), which met for the first time in Tokyo in February 1998. The Manila Framework is intended as a multilateral financial surveillance mechanism in East Asia to supplement the functions of the IMF. The fact that the body is not exclusively East Asian clearly makes it more acceptable to the US and IMF, but nevertheless the acknowledgement is that the Manila Framework surveillance functions are very much based on the original Japanese AMF proposal.<sup>12</sup>

The Manila Framework clearly lacked the type of loan facility which was envisaged in the AMF. But the fourth phase of Japan's response to the financial crisis concentrated on the creation of a form of regional loan facility which did not yet fully match the multilateral AMF proposal but did function as a stepping stone towards it.

Specifically, in October 1998, Finance Minister Miyazawa Ki'ichi announced a US\$30 billion initiative to provide financial assistance to the East Asia region. Known as the 'New Miyazawa Initiative' and devised by MOF officials, the Japanese government provided funds, both directly through a special facility established in the ADB, in order to guarantee sovereign bonds issued by East Asian states, which were then used to recapitalise ailing banks and corporations in the region. In contrast to IMF rescue packages, the New Miyazawa Initiative offered softer conditionality and did not demand significant restructuring of the region's corporations. A number of East Asian states sought Japanese financial assistance under the plan (Thailand received US\$1.9 billion in December 1998; Malaysia, US\$1.5 billion in December 1998 and US\$700 million in March 1999; Indonesia, US\$2.4 billion in February 1999; the Philippines, US\$1.6 billion in March 1999; and South Korea, US\$5 billion in January 1999, and US\$1 billion in March 1999). Meanwhile, in tandem with the New Miyazawa Initiative, Japan's Ministry of International Trade and Industry (MITI) (now renamed as Ministry of Economy, Industry and Trade [METI]) issued up to US\$22.5 billion in export credits to promote intra-regional exports, as well as working on plans to increase the transfer of technology to East Asian states through new Official Development Assistance (ODA) projects allowing them to upgrade their industries and competitiveness.

This fourth phase of the Japanese response to the crisis drew inevitable initial criticisms as yet another example of Japanese 'chequebook' diplomacy—or the throwing of money at a problem in *lieu* of proper solutions or decisive leadership. Nonetheless, Japan's provision of funds to the East Asia economies under the initiative can be seen as highly purposeful on Japan's part, and was perceived as

highly effective on the part of regional recipients. Moreover, in contrast to the AMF proposal, the New Miyazawa Initiative did not draw the criticism of the US or China, and this was in spite of the fact that it provided softer conditionality in loans than those of the IMF and thus carried the implicit design of undergirding the resistance of the regional states to IMF restructuring packages. As noted above, the Japanese government was even prepared to provide large amounts of finance to Malaysia, the most die-hard of developmental states in East Asia and the most virulent critic of the IMF and US economic prescriptions for the region.

The New Miyazawa Initiative has been essentially a regional-wide framework with each state in the region linked bilaterally to Japan at its core—an interesting parallel in the economic dimension to the ‘hubs and spokes’ of the US bilateral alliance framework in the dimension of security. In the fifth phase of its response to the financial crisis, though, Japan has inched this framework forward to create one which increasingly approximates to multilateralism and the original AMF proposal. Specifically, Japan has been able to achieve this by utilising the APT multilateral forum to create what is known as the ‘Chiang Mai’ initiative. The APT summit comprises the leaders of the ASEAN-10, China, South Korea and Japan, and is thus the first exclusive East Asian grouping to meet without the presence of either the US or EU. The APT leaders’ summit first met in 1997 and has been held annually since after each ASEAN Post Ministerial Conference (PMC).

In addition, APT has instituted Foreign Ministers’ and Finance Ministers’ meetings since 1999. It was at the latter of these meetings at Chiang Mai in Thailand in May 2000, that an initiative was announced, involving an expansion of the 1994 ASEAN

currency swapping arrangement to include ‘all ASEAN countries, and a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan and the Republic of Korea’<sup>13</sup>. The initiative had been under research by ASEAN since the previous year, and then was discussed by ASEAN economic ministers in March 2000. Chiang Mai is significant because even though it is still primarily bilateral in nature—forming a network of bilateral currency swaps arrangements, or multiple bilateralisms—it does represent a further step towards real multilateral and regional financial co-operation. Indeed, the formation of the Chiang Mai initiative is not far from the type of fund envisaged in the AMF proposal, and can promise to be highly effective given the agreement of China to participate and the extensive foreign reserve assets of many states in the region. Moreover, since the fourth APT summit in Singapore in November 2000, this forum has shown signs of metamorphosing into an even larger regional project. The summit is likely to be renamed as the East Asian summit and plans were floated for enhanced regional cooperation through free trade and investment areas.<sup>14</sup> Furthermore, as part of the Asia-Europe Meeting (ASEM) process, Japan has also helped to fund joint Japan-China-South Korea-ASEAN-EU research into a common currency in the region.<sup>15</sup>

The Chiang Mai initiative appeared very much as an ASEAN and pan-Asian initiative, but in fact its origins, as with that of the AMF, can be traced back to Japan.<sup>16</sup> The Japanese government had continued to patiently argue the case for some type of AMF mechanism in various international arenas, including the IMF. Finance Minister Miyazawa, for instance, called for an AMF again in December 1998.<sup>17</sup> The AMF idea was also taken up by other East Asian leaders such as South Korean Prime Minister Kim Jong-Pil, who called for an AMF in December 1998 and again in



August 1999 when visiting Japan. Although the evidence is fragmentary, it appears that MOF officials had long been in negotiation with their counterparts in ASEAN in order to persuade them of the need for a regional and multilateral funding arrangement and encouraged the Thai finance ministry, often so close to Japan on a number of initiatives, to promote the idea within ASEAN itself.

Moreover, from July to August 1999, the Japanese government despatched to East Asia a high level Mission for the Revitalisation of the Asian Economy, led by private sector elite businessmen (including the Chairmen of Toyota and Tokyo-Mitsubishi Bank, and representatives from Sony), ex-MOF and MOFA officials, and academics. The mission met with the political leaders, and foreign, economic and finance leaders of the region, and its final report was released in November 1999.<sup>18</sup> One of the conclusions of the report was for the need for expanded monetary cooperation in the region, and the mission appears to have functioned to both sample and build consensus in support of a regional funding mechanism. These efforts on the surface indicate the depth of Japanese activity behind the scenes in seeking to push forward the agenda of financial cooperation. Hence, when the Chiang Mai initiative was actually announced, it was clear to all that the motor behind the initiative and principal supplier of expertise to the various ASEAN finance ministries had been Japan. The finance ministers' statement at Chiang Mai specifically stated its appreciation of Japan's provision of 'technical assistance in the financial sector through training and seminars for finance officials and the dispatch of experts to meet urgent needs of improving fiscal consolidation, public debt management and monetary policy'.<sup>19</sup>

Therefore, between 1997 and 2000 proposals for financial cooperation within East Asia almost came full circle: the AMF was rejected by the IMF, the US, and China, only to be resurrected in various stages and different guises as the Manila Framework, New Miyazawa Initiative, and then the Chiang Mai initiative. The Japanese government has clearly exercised a decisive influence in generating and pushing through this agenda, and, contrary to the criticisms levelled at its diplomacy in 1997, has since been highly successful in achieving its policy agenda. Japan has not managed to achieve this agenda in an entirely straight trajectory, but has managed to ‘zigzag’ its way forward on various levels, and in the face of considerable opposition at times from the US and China. Nevertheless it has proved itself to be an indefatigable diplomatic actor not easily deflected from its ultimate goal of enhancing regional monetary cooperation. All this paints a picture of surprisingly effective diplomatic actor, far from the stereotype of Japan as a ‘reactive’ state.<sup>20</sup> The next sections seek to explain why Japan has shown such a dogged determination and selected the policy objective that it has, and, in turn, how it has sought to instrumentalise these goals through its characteristically quiet diplomacy.

*‘Why’: motivations for Japan’s East Asian economic diplomacy*

As elucidated in earlier sections of this article, the reasons ‘why’ Japan pursues a particular international policy can be explained through a mix of structure, agency and norms. In the case of Japan’s relations with East Asia in the post-war era the dominant international structural determinants of its policy have been the legacy of colonialism and the effects of the Cold War and bipolarity. It is well known how Japan’s history of colonialism has created a legacy of anti-Japanese sentiment in many of the ex-colonies and newly-established states in the region, such as China, North and South

Korea, and Singapore, which have often led them to reject in the past the legitimacy of a Japanese leadership role in the region in the post-war era. Meanwhile, the onset of the Cold War in East Asia and Japan's adherence to the US half of the bipolar divide imposed another structural restriction upon Japan's diplomacy in the region. Japan's bilateral political, economic and security relationship with the US ensured that during the Cold War it was only able to improve significantly relations with those states on the US side of the bilateral divide. Japan was clearly not completely inactive or a total cipher of the US in this period. Its policy-makers did attempt at times to circumvent and test the structural constraints of the bilateral relationship with the US by seeking to improve ties with certain communist states and in order to lay a basis for future friendly ties and overcome the colonial past.<sup>21</sup> But in the final calculation Japan usually conformed with US interests in the region so as not to endanger the key bilateral relationship.

In the post-Cold War period these structural constraints upon Japan's relations with East Asia have eased but still shape its policy in the region. Suspicion of Japanese militarism and its hegemonic ambitions in the region have abated, but Japan still needs to be careful of not being seen to dominate the region. Likewise, the relative decline in US economic power has increased Japan's diplomatic room for maneuver, and also made it aware that it needs to develop diplomatic options other than reliance on the US, hence its increasing interest in regional frameworks. However, for Japan the US still remains very much an unchallenged superpower and it is still the key bilateral partner politically, economically, and especially in the security dimension. The result is that Japanese policy-makers still need to look over their shoulders at the US reaction when developing relations with other regions so as to ensure that this

does not conflict too greatly with US interests or threaten the long-term health of the bilateral relationship. Thus, as always, Japan must be mindful to balance its global interests identified with the US, and its regional interests in East Asia, and this helps to explain Japan's behaviour during the financial crisis.

Essentially, the financial crisis demonstrated the need for Japan to take a greater leadership role in East Asia in which it had a major trading and Foreign Direct Investment (FDI) stake, and that it could not rely on the US and IMF which were preoccupied with other regions. However, Japan's ability to do so was circumscribed by considerations of international structure. The legacy of colonialism meant that Japan was unable to take a highly overt role and be seen to dominate the region, and thus looked to multilateral frameworks to help legitimise and camouflage its efforts to lead the region. Also it meant that it was susceptible to Chinese objections to the AMF and was forced to back away from its original proposal in 1997. Similarly, the bilateral relationship with the US meant that Japan was cautious about pushing too far and too fast with an AMF proposal that explicitly excluded the US. Japan relented on the AMF proposal in 1997 due to US objections, which in part had been put in place by Japan's own failure to exercise its usual style of *nemawashi* and quiet diplomacy. Clearly, US objections at this time did not stop Japan from returning with subsequent financial initiatives. But in the later phases of economic diplomacy Japan was far more cautious to ensure that it was not seen to challenge US dominance in the region head-on or to exclude it from influence. As will be described below, Japan instrumentalised this by channelling its diplomatic efforts through multilateral bodies, international institutions and East Asian proxies.

In turn, Japan's response to the international structural imperative of needing to devise policies to meet the economic demands of East Asia, whilst at the same time attempting to circumvent the international structural obstacles of the legacy of colonialism and bilateral relations with the US, was conditioned by a mix of domestic agency and norms. In the case of the East Asian financial crisis, the dominant actors in devising Japan's economic diplomacy were MOFA, MOF and MITI. Each of these ministries perceived clearly the challenges posed to Japan by the international structure, but the response of each and adjustment between and amongst their varying interests which determined the final policy objectives of Japan, was shaped by the norms of developmentalism, Asianism, and bilateralism. Developmentalism stresses that Japan's contribution to East Asia should be economic in nature by promoting integration and development. Asianism can be traced back to the prewar era and stresses Japan's common political, economic and security identity with East Asia. Again this can take a number of forms, ranging from guilt over Japan's colonial past, to sympathy for the plight of divided states in the region, to muted support for authoritarian governments and their developmental ambitions, to open hostility towards 'non-East Asian' states. Finally, Asianism is often in tension with the norm of bilateralism, which views Japan as sharing a common political, economic and security identity with the US-determined international system, and thus stresses the importance of maintaining bilateral ties with the US as the key to Japan's diplomacy. Bilateralism can range in strength from the espousal of support for liberal market economies and democracy, through to virulent anti-communism.<sup>22</sup>

All of the ministries can be said to be infused to different degrees with these norms. MOFA, and especially its North American Affairs Bureau (NAAB), has been the

traditional bastion of bilateralism in Japan. However, the dominance of bilateralism in MOFA has also been challenged by the increasing influence of Asianist norms and the China and ASEAN ‘factions’ of the Asian and Oceanian Affairs Bureau (AOAB). In contrast, MOF and MITI can be seen as heavily influenced by the norms of developmentalism and Asianism. For example, a number of senior MOF officials having served in the ADB and returned to Japan as converts to the vital importance of East Asia for Japan’s economy, and MITI officials have assumed responsibility for the propagation of developmental and Asianist norms, as seen in the production of the World Bank’s *East Asian Miracle* report.<sup>23</sup> Neither MOF nor MITI, though, are bereft of bilateralism and all are aware of the importance of the US in setting limits upon Japan’s East Asian policy. Hence, on balance the outcome during the East Asian crisis of these pluralistic actors and norms seems to have been that Japan exercised its usual caution in regional initiatives. In fact, the decision to withdraw the original AMF proposal may have been due to MOFA objections that it worked too explicitly to exclude the US. But the increasing strength of Asianist and developmental norms seem to have increased the resolve of the ministries to realise some form of East Asian response led by Japan to the crisis. Moreover, the attachment to Asianist and developmental norms in MOF and MITI seems to have driven the particular nature of Japan’s response and its rejection of IMF-prescribed restructuring packages. The conviction of both ministries, based on the norms of developmentalism, that the developmental state was a viable and appropriate model of growth for the region clearly influenced the nature of the New Miyazawa Initiative. Moreover, the norms of developmentalism may have also persuaded these ministries that at risk in the financial crisis was more than just economic stability, but also the link between

development and political stability in the region, and that the drastic austerity packages of the IMF would only bring about political chaos and security problems.

### *Instrumentalisation of Japan's East Asian economic diplomacy*

By examining the 'what' and 'why' of Japan's East Asian economic diplomacy, the previous sections have demonstrated how the structure of the international system, agency, and norms have influenced the particular policy direction taken. In this final section it is now necessary to examine not only the 'what' and 'why' of Japan's Asian policy, but also 'how' it was put into effect and was able to achieve many of the desired outcomes. The introductory part to this article noted that Japan's quiet diplomacy has the characteristics of a distinct temporal aspect; that it works through a variety of channels including formal, informal, and proxy diplomacy; and that it also exploits a variety of unilateral, bilateral and multilateral levels. Japan's response to the East Asian financial crisis encompasses all of these features.

The particular temporal dimension of Japan's quiet diplomacy is shown by the fact that it approached the problem in its usual incremental and long-term fashion after the initial failure of the AMF proposal in 1997. Japan's rapid response to the crisis in the summer and autumn months of 1997 was perhaps uncharacteristically quick, and, although it almost achieved the desired effect, in the end faltered due to the lack of time to conduct exercises in consensus-building and *nemawashi* amongst the states of the region and the US. As stated above, Japan's quiet diplomacy is not always at its strongest in sudden crisis situations, but its true worth was demonstrated in the period after 1997 when it doggedly pursued the goal of establishing a regional financial framework. The above description of the pattern of Japanese diplomacy has shown

how Japan having experienced failure in 1997 then switched to an incremental pattern of build-up towards its diplomatic goals, moving in gradual steps from the Manila Framework, to the New Miyazawa Initiative, to the Chiang Mai initiative, and always keeping in mind the ultimate goal of regional financial cooperation over this three time span.

Japan's ability to exploit various channels of diplomacy is also well illustrated by its maneuvering between and exploitation of informal and proxy channels. Japan persisted with formal diplomacy by sending MOFA, MOF and MITI officials to the East Asia states and to the IMF and World Bank meetings to argue the case for financial cooperation. For instance, MITI minister Yosano Kaoru, visited Indonesia, Malaysia and Singapore in late September 1997, prior to the announcement of the New Miyazawa Initiative. The apparent aim of his visit was to drum up support for the new Japanese initiative.<sup>24</sup>

As well as these *omote* moves, however, the Japanese government also relied heavily on less formal and *ura* channels to pursue quiet diplomacy. Hence, prior to the announcement of the AMF initiative, the Japanese government had previewed its ideas at an EMEAP meeting in Shanghai, and then at an informal meeting of East Asian finance ministers in Hong Kong, all in the same month. Added to this, immediately following the announcement of the AMF initiative, MOF despatched Sakakibara Eisuke to the Philippines, Indonesia and Singapore on an informal mission to build consensus amongst the regional states through *nemawashi*. Sakakibara seems to have been highly successful in getting the regional states on board the AMF concept, but failed, somewhat ironically given his academic background and



connections in the US (he holds a doctorate in economics from the University of Michigan) to persuade the US Treasury. By his own admission when Sakakibara informed US Deputy Treasury Secretary, Lawrence Summers, of the AMF proposal in September 1997 he was met with Summers' reproachful comment that he had 'thought [Sakakibara] to be his friend'.<sup>25</sup> This implied that Japan had betrayed the US's trust through its informal dealings in the region. The lack of *nemawashi* beforehand was almost certainly one reason why Japan met so much opposition from the US in 1997.

In subsequent informal diplomatic efforts, though, Japan was much more careful to prepare the groundwork and to use a number of alternative actors to investigate the degree of support for regional financial cooperation. The utilisation of the Mission for the Revitalisation of East Asia was one example of the use of non-state actors to instrumentalise the Japan's government's objectives. In many ways, Japan had also done much of the preparation behind the scenes for the introduction of frameworks for regional monetary cooperation through the use of private think-tanks such as the IIMA. In addition, Sakakibara also made a more concerted effort to persuade the US of the utility of an AMF-like body (for instance, making a secret visit to China before the announcement of the New Miyazawa Initiative), so helping to explain its declining objections to the New Miyazawa Initiative and Chiang Mai initiative.<sup>26</sup> In a similar fashion, the Japanese government exploited its strong position in regional organisations as another indirect route by which to gain consensus for its plans. Hence, MOF used its dominant position in the ADB to move its loan agenda away from infrastructure projects and towards multilateral financial restructuring, as well as ensuring the ADB's annual *Asian Development Outlook* report should call for the

establishment of an AMF.<sup>27</sup> Here Japanese policy-makers clearly preferred to utilise existing multilateral institutions to serve their purposes rather than to make bold initiatives to establish new ones which overly challenged the US. Proxy diplomacy was also evident in the way in which policy-makers persuaded the ASEAN states to put forward initiatives for financial cooperation in Japan's stead. In this way, Japanese policy-makers were able to nudge the APT framework towards regional financial cooperation, and thereby create in all but name another AMF. All these efforts combine to demonstrate conclusively how Japanese actors are able to function as important policy entrepreneurs in the region, and, how, once having planted the concept of the AMF amongst the East Asian political elites, they pursued its realisation in one form or another and through a variety of channels.<sup>28</sup>

The instrumentalisation of Japanese policy is similarly evident in the agility with which policy-makers exploited and switched between and amongst different levels and types of diplomatic activity. The Japanese government's initial interest in multilateral frameworks for regional monetary cooperation had come through its establishment of EMEAP. The government's inability to launch a fully multilateral response to the financial crisis through the 1997 AMF proposal clearly persuaded policy-makers to fall back on bilateral initiatives in announcing the New Miyazawa Initiative in 1998. But they were then able to switch back to a form of multilateralism by utilizing the APT forum as a venue for pursuing quiet diplomacy. In this way, Japanese policy-makers demonstrated the ability to work on different levels of diplomacy.

The final aspect of Japan's quiet diplomacy in the region was its deployment of economic power. Certainly, the government has been criticized in the past for being supposedly over-reliant on the distribution of money in order to respond to international crises and buy international influence—the apogee of this being its perceived failure to respond to the demands of the West to make a ‘human contribution’ during the Gulf War, providing instead only a financial contribution, albeit to the tune of US\$13 billion. The Japanese response to the East Asian financial crisis initially drew the same sorts of criticism. Clearly, during the financial crisis a monetary contribution was required, but the government was seen again to be ‘throwing money’ at the affected states as a way to stave off problems in the short term and meet the clamour for assistance from the region. In other words, it was not prepared to recognise the need for restructuring economically in the region over the longer term. The above sections have demonstrated, however, how Japanese policy-makers were able to use financial resources to meet their policy objectives.

In the end, the Japanese government was largely able to achieve its diplomatic goals through financial means. This was, without doubt, costly. Nevertheless, for Japan these costs are comparable in terms of effectiveness to the types of costs that other ‘normal’ states might incur when using military power to achieve their objectives. All in all, Japanese policy-makers opt for non-military diplomacy more than in other states, and undoubtedly this has limits in efficacy depending on the context. Yet it is also clear that their use of economic power in order to realize interests can be highly effective, to the extent of providing Japan with the dominant role in setting the agenda for further regional integration, as seen in the case of the East Asia financial crisis.

### **Conclusion: Japan's regional economic diplomacy and control of outcomes**

The above discussion of the Japanese government's response to the East Asian financial crisis has painted a picture of Japan as a state which displays a remarkable, but often unrecognised, ability to achieve its diplomatic ends and exercise control over outcomes. The case study demonstrates that Japanese policy-makers have in many ways achieved their overall goal of constructing the basis of a framework for regional financial monetary cooperation with Japan at its centre, and that it has been able to push this agenda forward despite resistance from the US and China. Japan has been motivated to pursue this agenda through a combination of international structure, domestic agency and norms. The international structure, defined by the legacy of colonial history and suspicion of Japanese domination in the region, as well as by Japan's close attachment to its bilateral relationship with the US, has produced a set of challenging constraints for Japan in its attempt to pursue its regional diplomacy. At the same time, though, Japanese policy-making agents have sought to work within, to push outwards the envelope of, and to circumvent the international structure to achieve their diplomatic strategy motivated by a variety of norms. The norm of bilateralism and association with the US has meant that Japan's policy-makers have been reluctant to challenge US domination in the region and globally. But bilateralism has been balanced and to some degree counteracted by the norms of Asianism and developmentalism which have persuaded Japanese policy-makers of the need to push forward with greater regional economic cooperation.

In seeking to carry out this task, Japan's policy-makers have employed a range of modalities in the conduct of their quiet diplomacy—acting in different sites through a variety of agents and proxies, operating on multiple levels, and displaying an

incremental temporal perception. Certainly, the government does not always respond effectively in times of crisis, and such inaction often results in apparent immobilism. In the case of the East Asian financial crisis, however, it demonstrated a clear capacity to pursue policy goals over both the immediate and longer term. Indeed, the New Miyazawa and Chiang Mai initiatives suggest Japanese policy-making agents are not necessarily as subject to the pressures which exist in the West to provide a 'quick fix'. As the case study demonstrates, moreover, Japanese policy-makers have pursued their objectives on a variety of levels (bilateral, regional and multilateral) and have often proven skilful at maneuvering between and amongst these levels.

All of this invites us to rethink commonplace views of Japan's alleged incapacity to lead the East Asia region in the period following the East Asian financial crisis. Japanese leadership was far from defeated in the wake of the East Asia crisis. Instead it was simply the case that Japanese leadership was being exercised through modes and channels which do not conform to many preconceptions about how developed states conduct their diplomacy. If the expectation is to find Japanese leadership in a number of sustained public initiatives, which openly challenge the leadership aspirations of other powers such as the US and China, then this is a misconception of the style of Japanese diplomacy and a problem of looking in the wrong places for leadership which inevitably will not be found. However, if, as suggested in this article, preconceptions about Japanese diplomacy are suspended, and an attempt is made to look behind the scenes and at alternative levels of diplomacy, then there can surely be found a very distinct and effective form of Japanese leadership.

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